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Macroeconomic policy questions: international financial system and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 18 (see A/65/434, para. 2). Action on sub-item (b) was taken at the 15th and 30th meetings, on 20 October and 22 November 2010. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/65/SR.15 and 30).

II. Consideration of draft resolutions A/C.2/65/L.3 and A/C.2/65/L.48

2. At the 15th meeting, on 20 October, the representative of Yemen, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "International financial system and development" (A/C.2/65/L.3), which read:

"The General Assembly,

"Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled 'Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity', as well as its resolutions 57/241 of 20 December 2002, 58/202 of 23 December 2003, 59/222 of 22 December 2004, 60/186 of

* The report of the Committee on this item is being issued in four parts, under the symbol A/65/434 and Add.1-3.

22 December 2005, 61/187 of 20 December 2006, 62/185 of 19 December 2007, 63/205 of 19 December 2008 and 64/190 of 21 December 2009,

"Recalling also the Conference on the World Financial and Economic Crisis and Its Impact on Development and its outcome,

"Recalling further the High-level Plenary Meeting of the sixty-fifth session of the General Assembly on the Millennium Development Goals and its outcome,

"Expressing deep concern over the adverse impact of the ongoing world financial and economic crisis on developing countries, which highlighted long-standing systemic fragilities and inequalities, stressing that the recovery is uneven and uncertain, that there is no guarantee that a relapse will not occur and that the systemic problems facing the global economy have to be resolved, including through the full accomplishment of the reform of the global financial system and architecture,

"Emphasizing the urgent need for the United Nations to assume a central and proactive role in global economic governance and reiterating the need to strengthen the leadership role of the United Nations in promoting development,

"Reiterating that the international financial system should sustain economic growth and support sustainable development and hunger and poverty eradication efforts in developing countries, while allowing for the coherent mobilization and deployment of all sources of financing for development, including unconditional multilateral funding, the mobilization of domestic resources, international investment flows, official development assistance, external debt relief and a universal, rule-based, open, non-discriminatory and equitable multilateral trading system,

"Reiterating also its call for the predictable and timely disbursement of multilateral resources and official development assistance and for putting an end to the ongoing procyclical conditionalities that curtail the available financial options for developing countries and needlessly exacerbate the financial, economic and developmental challenges faced by those countries,

"Stressing the importance of commitment to ensuring sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development,

"Stressing also that good governance at the international level is fundamental for achieving sustainable development, reiterating in this regard the importance of promoting global economic governance by addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries in order to ensure a dynamic and enabling international economic environment, and reiterating also that, to this effect, the international community should take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, finding a comprehensive solution to the external debt problem and increasing the market access of developing countries,

"Recognizing the continued importance of good governance along with national ownership of policies and strategies, and recalling the commitment to promoting effective and efficient economic and financial institutions at all levels, which are key determinants of long-term economic growth and development, as well as to accelerating the collective recovery from the crisis,

"Reaffirming the need to broaden and strengthen the participation of developing countries in international economic decision-making and norm-setting bodies and processes, and stressing to that end the importance of making tangible progress in and accelerating the reform of the international financial architecture, including in respect of the issue of the voting power and voice of developing countries in the Bretton Woods institutions,

"Recognizing the important role to be played by increased allocations of special drawing rights in increasing global liquidity, the potential for expanded special drawing rights to contribute to global stability, equity and economic resilience, and that an enhanced role of special drawing rights would help to mitigate the inequality bias of the current global reserve system,

"Recognizing also the contribution of the Commission of Experts of the President of the sixty-third General Assembly on Reforms of the International Monetary and Financial System, and taking note of its final report,

"1. Takes note of the report of the Secretary-General;

"2. Underlines that the global financial and economic crisis is still ongoing, stresses that the recovery is uneven, fragile and uncertain, and recalls that the systemic problems facing the global economy have yet to be resolved;

"3. Recognizes the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including the Millennium Development Goals;

"4. Reaffirms that global economic growth and a stable international financial system, inter alia, can support the capacity of developing countries to achieve national development goals and internationally agreed development goals, including the Millennium Development Goals, and stresses the importance of cooperative and coordinated efforts by all countries and institutions to cope with the risks of financial instability;

"5. Stresses the urgent need for the United Nations to assume a central and proactive role in international economic issues, and in this regard resolves to further strengthen the role of the United Nations in economic and financial affairs, including in relation to the reform and well-functioning of the international financial and economic system and architecture;

"6. Recognizes the work done by the ad hoc open-ended working group of the General Assembly to follow up on the issues contained in the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development, and looks forward to the continuation of its work;

"7. *Welcomes* the establishment of an ad hoc panel of experts to produce independent technical advice and analysis, including recommendations on global financial, economic and systemic issues, to be made available to the Economic and Social Council and to the General Assembly;

"8. *Underlines* that the ongoing global financial and economic crisis has further highlighted the urgent need for a substantive and comprehensive reform of the international economic and financial system and architecture to address its democratic deficit, in keeping with the new economic realities, including with regard to policies, mandates, scope and governance, not only to better enable it to respond to and prevent financial and economic emergencies, but also to effectively promote development and equitably serve the needs of all Member States, particularly developing countries, stresses that international financial institutions, in particular, must have a clear development orientation, and calls on all Member States to participate in an open, inclusive and transparent dialogue on a new international economic and financial system and architecture;

"9. *Stresses* that developing countries must have the necessary policy space for pursuing tailored and targeted responses to the crisis in accordance with their development needs and priorities, and calls for a reformed lending and financing paradigm, including the establishment of new credit facilities, as necessary, and the prompt end to conditionalities that curtail the individualized options available to developing countries and needlessly exacerbate the financial, economic and developmental challenges faced by these countries, and within this context, while noting steps taken by the International Monetary Fund in this regard, recognizes that new and ongoing programmes still contain conditionalities and that the reformed lending and financing paradigm of the international financial institutions, with the full and fair representation of developing countries, must move forward with flexible, concessional, conditionality-free, fast-disbursing and front-loaded instruments designed to substantially and quickly assist developing countries facing financing gaps;

"10. *Underlines* that the current crisis has further highlighted the fact that reform efforts should include other standard and norm-setting and code-formulating bodies, outside the multilateral system, and that those efforts should ensure the full and fair representation of developing countries in such bodies, including the Financial Stability Board and the Basel Committee on Banking Supervision;

"11. *Underscores* that developing countries facing a shortage of foreign exchange because of the fallout from the crisis should not be denied the right to use temporary capital account measures and debt standstills in order to mitigate the adverse impacts of the crisis on the economy, jobs and incomes, including increased poverty;

"12. *Stresses* the vital need for ambitious and expeditious reform of the Bretton Woods institutions, particularly their governance structures, based on the full and fair representation of developing countries, in order to address the democratic deficit in those institutions and improve their legitimacy, and that these reforms must reflect current realities and ensure the full voice and participation of developing countries;

"13. *Calls* for International Monetary Fund and World Bank quota realignments to result in an equitable voting power distribution between developed and developing countries, without diluting the quotas and shares of individual developing countries, and reiterates that the existing quota formula, biased against developing countries, has to be improved before it is used again, and that the next realignment of quotas in favour of developing countries should go far beyond the initial modest outcome achieved during the April 2008 meeting of the Bretton Woods institutions; in this regard, as a first step, the reforms should achieve, at a minimum, parity of voting power for developing countries as a group in the decision-making process within the Bretton Woods institutions;

"14. *Stresses* that the current international reserve system based on a single national currency contributes to economic imbalances and market instability, takes note of proposals for reforming the current system, including with regard to the functions of expanded special drawing rights, and requests the Secretary-General to prepare a detailed study on the feasibility of a more efficient and equitable reserve system, including a stronger role for regional commercial and reserve arrangements, and contingent facilities for balance of payments problems;

"15. *Commits* to undertaking further examination of the role of enhanced special drawing rights in the expansion of liquidity, stabilization of the reserve system and the promotion of development, and calls for a new and significant general special drawing rights allocation, in the current basic period, to meet liquidity needs and promote development, as a first step to be followed by regular and periodic allocations of special drawing rights;

"16. *Recognizes* that an effective, inclusive multilateral surveillance should be at the centre of crisis prevention efforts and in this regard stresses the critical need for expanding the scope of regulation and supervision and making it more effective, with respect to all major financial centres, instruments and actors, including financial institutions, credit rating agencies and hedge funds, and stresses that developing countries must be given flexibility to adequately regulate their financial markets, institutions and instruments, consistent with development priorities and circumstances;

"17. *Stresses* the need to strengthen surveillance of developed countries' economic policies and their impact, inter alia, on international interest rates, exchange rates and capital flows, including private and public financing in developing countries;

"18. *Takes note* of the efforts under way to strengthen financial regulation and, in this regard, stresses that the revised standards and their implementation should be flexible enough to take into account domestic circumstances of financial markets in developing countries;

"19. *Underlines* the importance of efforts at the national level to increase resilience to financial risk, and stresses in this regard the importance of better assessment of a country's debt burden and its ability to service that debt in both crisis prevention and resolution;

"20. *Recognizes* the negative impacts of excessive short-term capital flows and requests the Secretary-General to prepare a report on the role of

capital control and prudential measures in mitigating the negative impact of those flows in developing countries;

"21. *Invites* the international financial and banking institutions to enhance the transparency of risk-rating mechanisms, noting that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis, and encourages relevant development institutions, including the United Nations Conference on Trade and Development, to continue their work on the issue, including its potential impact on the development prospects of developing countries;

"22. *Calls on* the multilateral, regional and subregional development banks and development funds to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and in this regard calls on the international community to ensure that multilateral regional and subregional development banks are adequately funded;

"23. *Stresses* the importance of enhanced regional and subregional efforts such as subregional development banks, regional and subregional reserve currency arrangements and regional and subregional integration initiatives, which may have an important complementary role in liquidity provision and development;

"24. *Also stresses* the need to continuously improve standards of corporate and public sector governance, including accounting, auditing and measures to ensure transparency;

"25. *Further stresses* the urgent need to review the agreement between the United Nations and the Bretton Woods institutions, in collaboration with these institutions, focusing particular attention on the mechanisms for enhancing coordination and cooperation between the United Nations and the respective Bretton Woods institutions and the opportunities for contributing to strengthening the development mandates and effectiveness of the Bretton Woods institutions as part of the ongoing process of reforming and strengthening the international financial and economic system and architecture;

"26. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-sixth session on the implementation of the present resolution;

"27. *Decides* to include in the provisional agenda of its sixty-sixth session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'International financial system and development'."

3. At its 30th meeting, on 22 November, the Committee had before it a draft resolution entitled "International financial system and development" (A/C.2/65/L.48), submitted by the Vice-Chair of the Committee, Erik Lundberg

(Finland), on the basis of informal consultations held on draft resolution A/C.2/65/L.3.

4. At the same meeting, the Committee was informed that draft resolution A/C.2/65/L.48 had no programme budget implications.

5. Also at the same meeting, the Vice-Chair of the Committee, made a statement, in the course of which he orally corrected draft resolution A/C.2/65/L.48 as follows:

(a) In the last preambular paragraph, the word "recommendations" was replaced by the word "report";

(b) In operative paragraph 19, the words ", in addition," were added before the words "encourages efforts".

6. Also at its 30th meeting, the Committee adopted draft resolution A/C.2/65/L.48, as orally corrected (see para. 9).

7. Before the adoption of draft resolution A/C.2/65/L.48, the representative of the United States of America made a statement (see A/C.2/65/SR.30).

8. In the light of the adoption of draft resolution A/C.2/65/L.48, draft resolution A/C.2/65/L.3 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

9. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

International financial system and development

The General Assembly,

Recalling its resolutions 55/186 of 20 December 2000 and 56/181 of 21 December 2001, both entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity", as well as its resolutions 57/241 of 20 December 2002, 58/202 of 23 December 2003, 59/222 of 22 December 2004, 60/186 of 22 December 2005, 61/187 of 20 December 2006, 62/185 of 19 December 2007, 63/205 of 19 December 2008 and 64/190 of 21 December 2009,

Recalling also the United Nations Millennium Declaration¹ and its resolution 56/210 B of 9 July 2002, in which it endorsed the Monterrey Consensus of the International Conference on Financing for Development,² and the Plan of Implementation of the World Summit on Sustainable Development ("Johannesburg Plan of Implementation"),³

Recalling further the Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, held in Doha from 29 November to 2 December 2008,⁴

Recalling the Conference on the World Financial and Economic Crisis and Its Impact on Development and its outcome,⁵

Recalling also the High-level Plenary Meeting of the sixty-fifth session of the General Assembly on the Millennium Development Goals and its outcome,⁶

Recognizing the work undertaken by the Ad Hoc Open-ended Working Group of the General Assembly to follow up on the issues contained in the outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development, and taking note of its progress report,⁷

Taking note of the decisions taken at the 2010 spring and annual meetings of the International Monetary Fund and the World Bank,

¹ See resolution 55/2.

² *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution I, annex.

³ *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.

⁴ Resolution 63/239, annex.

⁵ Resolution 63/303, annex.

⁶ See resolution 65/1.

⁷ A/64/884.

Expressing deep concern about the ongoing adverse impacts, particularly on development, of the world financial and economic crisis, the worst since the Great Depression, and recognizing that, while global growth is returning, there is a need to sustain the recovery, which is fragile and uneven,

Stressing in this regard the need to address the long-standing systemic fragilities and imbalances highlighted by the global crisis, and the need for continuing efforts to reform and strengthen the international financial system,

Reaffirming the purposes of the United Nations, as set forth in the Charter, including to achieve international cooperation in solving international problems of an economic, social, cultural or humanitarian character and to be a centre for harmonizing the actions of nations in the attainment of common ends, and reiterating the need to strengthen the leadership role of the United Nations in promoting development,

Reiterating that the international financial system should support sustained, inclusive and equitable economic growth, sustainable development and hunger and poverty eradication efforts in developing countries, while allowing for the coherent mobilization of all sources of financing for development,

Stressing the importance of commitment to ensuring sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development,

Recognizing the continued importance of good governance along with national ownership of policies and strategies, and recalling the commitment to promoting effective and efficient economic and financial institutions at all levels, which are key determinants of long-term, sustainable and inclusive economic growth and development, as well as to accelerating the collective recovery from the crisis, including through improved transparency, eradication of corruption and strengthened governance,

Stressing that good governance at the international level is fundamental for achieving sustainable development, reiterating in this regard the importance of promoting global economic governance by addressing the international finance, trade, technology and investment patterns that have an impact on the development prospects of developing countries in order to ensure a dynamic and enabling international economic environment, and reiterating also that, to this effect, the international community should take all necessary and appropriate measures, including ensuring support for structural and macroeconomic reform, finding a comprehensive solution to the external debt problem and increasing the market access of developing countries,

Taking note of the report of the Commission of Experts on Reform of the International Monetary and Financial System convened by the President of the sixty-third session of the General Assembly,⁸

1. *Takes note* of the report of the Secretary-General;⁹

⁸ See A/63/838.

⁹ A/65/189.

2. *Recognizes* the urgent need to enhance the coherence, governance and consistency of the international monetary, financial and trading systems and the importance of ensuring their openness, fairness and inclusiveness in order to complement national development efforts to ensure sustained economic growth and the achievement of the internationally agreed development goals, including the Millennium Development Goals;

3. *Notes* the important efforts undertaken nationally, regionally and internationally to respond to the challenges posed by the financial and economic crisis, in order to ensure a full return to growth with quality jobs, to reform and strengthen financial systems and to create strong, sustainable and balanced global growth;

4. *Reaffirms* that global economic growth and a stable international financial system, inter alia, can support the capacity of developing countries to achieve their national policy objectives and internationally agreed development goals, including the Millennium Development Goals, and stresses the importance of cooperative and coordinated efforts by all countries and institutions to cope with the risks of financial instability;

5. *Notes* that the United Nations, on the basis of its universal membership and legitimacy, provides a unique and key forum to discuss international economic issues and their impact on development, and reaffirms that the United Nations is well positioned to participate in various reform processes aimed at improving and strengthening the effective functioning of the international financial system and architecture, while recognizing that the United Nations and the international financial institutions have complementary mandates which make the coordination of their actions crucial;

6. *Recalls*, in this regard, the resolve to strengthen the coordination of the United Nations system and multilateral financial, trade and development institutions so as to support economic growth, poverty eradication and sustainable development worldwide, on the basis of a clear understanding of and respect for their mandates and governance structures;

7. *Stresses* that the economic and financial crisis has highlighted the need for reform as well as added new impetus to ongoing international discussions on the reform of the international financial system and architecture, including on issues related to mandate, scope, governance, responsiveness and development orientation, as appropriate, and in this regard encourages continued open, inclusive and transparent dialogue;

8. *Recalls* that countries must have the necessary flexibility to implement counter-cyclical measures and to pursue tailored and targeted responses to the crisis, and calls for a streamlining of conditionalities to ensure that they are timely, tailored and targeted and support developing countries in the face of financial, economic and development challenges;

9. *Notes*, in this regard, the recent improvement of the lending framework of the International Monetary Fund through, inter alia, streamlined conditions and the creation of more flexible instruments such as a flexible credit line, while also noting that new and ongoing programmes should not contain unwarranted procyclical conditionalities;

10. *Reaffirms* the need to address the often expressed concern regarding the extent of representation of developing countries in the major standard-setting bodies, therefore welcomes, as a step in the right direction, the expansion of the membership in the Financial Stability Forum, re-established in 2009 as the Financial Stability Board, and in the Basel Committee on Banking Supervision, as well as their increased outreach to non-members, and encourages the major standard-setting bodies to further review their membership while enhancing their effectiveness, with a view to expanding the representation of developing countries as appropriate;

11. *Recognizes* the role of private capital flows in mobilizing financing for development, stresses the challenges posed by excessive short-term capital inflows to many developing countries, encourages further review of the benefits and disadvantages of macroprudential measures available to mitigate the impact of volatile capital flows, and requests the Secretary-General to take this into account in preparing his report on the implementation of the present resolution;

12. *Notes* that developing countries can seek to negotiate, as a last resort, on a case-by-case basis and through existing frameworks, agreements on temporary debt standstills between debtors and creditors in order to help to mitigate the adverse impacts of the crisis and stabilize macroeconomic developments;

13. *Reaffirms* the need to continue to broaden and strengthen the participation of developing countries in international economic decision-making and norm-setting, takes note of recent important decisions on reform of the governance structures, quotas and voting rights of the Bretton Woods institutions, better reflecting current realities and enhancing the voice and participation of developing countries, and reaffirms the need to continue the reform of the governance of those institutions in order to deliver more effective, credible, accountable and legitimate institutions;

14. *Calls*, in this regard, for the swift implementation of the reform in the voting power of developing countries and countries in transition in the World Bank, as endorsed by the Development Committee in its communiqué of 25 April 2010, and of the decision taken by the Executive Board of the International Monetary Fund on 5 November 2010 on quotas, voting shares and governance;

15. *Notes* that allocations of special drawing rights have contributed to increased global liquidity, and that there are discussions on policy options to promote long-term stability and the proper functioning of the international monetary system, including the potential role of special drawing rights and the complementary role of various regional arrangements therein, and requests the Secretary-General to take this into account in preparing his report on the implementation of the present resolution;

16. *Recognizes* that effective, inclusive multilateral surveillance should be at the centre of crisis prevention efforts, and stresses the need to strengthen surveillance of economic policies of countries with major financial centres and their impact, inter alia, on international interest rates, exchange rates and capital flows, including private and public financing in developing countries;

17. *Stresses* the critical need for making regulation and supervision more effective, especially with respect to all major financial centres, instruments and actors, including systemically important financial institutions, credit-rating agencies and hedge funds, and takes note of the efforts under way in this regard, including

those of the Basel Committee on Banking Supervision and the Financial Stability Board, and also stresses, while recognizing different national starting points and circumstances, the importance of global regulatory convergence to prevent regulatory arbitrage, and the global implementation of standards;

18. *Invites* the international financial and banking institutions to enhance the transparency of risk-rating mechanisms, noting that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis, and encourages relevant development institutions, including the United Nations Conference on Trade and Development, to continue their work on the issue, including its potential impact on the development prospects of developing countries;

19. *Calls upon* the multilateral, regional and subregional development banks and development funds to continue to play a vital role in serving the development needs of developing countries and countries with economies in transition, including through coordinated action, as appropriate, and stresses that strengthened regional development banks and subregional financial institutions can add flexible financial support to national and regional development efforts, thus enhancing their ownership and overall efficiency, and in this regard welcomes recent capital increases at multilateral regional development banks and, in addition, encourages efforts to ensure that subregional development banks are adequately funded;

20. *Encourages* enhanced regional and subregional cooperation, including through regional and subregional development banks, commercial and reserve currency arrangements and other regional and subregional initiatives;

21. *Stresses* the need to continuously improve standards of corporate and public sector governance, including those related to accounting, auditing and measures to ensure transparency, noting the disruptive effects of inadequate policies;

22. *Requests* the Secretary-General to submit a report to the General Assembly at its sixty-sixth session on the implementation of the present resolution, to be prepared in cooperation with the Bretton Woods institutions and other relevant stakeholders;

23. *Decides* to include in the provisional agenda of its sixty-sixth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "International financial system and development".